CHAPTER 12

CAPITAL ALLOWANCES – FURTHER COMPUTATIONS

Statutory references in this chapter are to CAA 2001 unless otherwise stated.

12.1 First year allowances

CAA 2001, s. 39

First year allowances (FYAs) were introduced in the first Labour Budget in 1997 as an incentive for businesses to invest in capital equipment.

FYAs give businesses an **enhanced rate of capital allowances** on plant & machinery in the **accounting period in which the expense is incurred**.

Unlike writing down allowances, **FYAs are not time apportioned** in short or long accounting periods.

Special types of qualifying expenditure attract **FYAs at 100%** - this means that the **whole of the expenditure is deducted from trading profits** in the period (effectively allowing businesses to treat the expense as a revenue deduction).

Additions qualifying for the 100% first year allowances are **entered into a 100% FYA pool**. The FYA is then deducted at 100%.

The following types of expenditure **attract FYAs at 100%:**

a) **energy saving plant and machinery** (boiler systems, certain motors etc); CAA 2001, s. 45A

b) designated plant and machinery which meets strict **water saving or efficiency criteria** (e.g. meters, monitoring equipment, flow controllers, leakage detection, efficient toilets and taps);

c) **capital expenditure on research and development** incurred by a trader (Research & Development Allowances). This includes expenditure on plant, machinery and buildings (but not land) used for the purposes of carrying out research and development; CAA 2001, s. 438, 441

d) costs of **converting an empty space above a commercial property into residential accommodation** ("flats above shops") – see below; CAA 2001, s. 393A, 393B, 393H

e) Business Premises Renovation Allowances (BPRA) – see below; CAA 2001, s. 360A, 360B, 360G

f) plant and machinery for Gas Refuelling Stations (storage tanks, compressors, pumps and any equipment for dispensing the gas); CAA 2001, s. 45E

g) carbon efficient biofuels plant;

h) natural gas, biogas and hydrogen refuelling equipment; CAA 2001, s. 45E

i) cars which are electrically propelled or have **CO_2 emissions not exceeding 110g/km** (more details in next chapter); and CAA 2001, s. 45D

j) expenditure within the **Annual Investment Allowance** - see below.

The 100% first year allowance on energy saving plant and machinery, low emission cars is only available if these assets **are acquired unused** and are not second hand.

12.2 Conversion of flats above shops

CAA 2001, s. 393A

100% first year allowances are available where the owner of a "qualifying building" (typically a shop) incurs capital expenditure on **converting or renovating** an empty space above the shop into a "qualifying flat". CAA 2001, s. 393H

The allowance is **100% of the conversion or renovation costs.** There are no allowances on the **actual purchase price of the property**. CAA 2001, s. 393B(1)

As with ordinary capital allowances, a **partial claim** for first year allowances can be made. Thereafter, WDAs are given at 25% on a straight-line basis. CAA 2001, s. 393K

Balancing adjustments will arise if the property is **sold within 7 years.** CAA 2001, s. 393M, 393N

The property must have a **shop on the ground floor** and an **empty space on the first or subsequent floors.** The flat must then be made available for short-term letting.

The capital allowances can be **set against the rents received** from the letting. The allowance is available when the property is **first available for letting**, not when the owner starts incurring the expenditure. CAA 2001, s. 393T

The 100% first year allowance can result in a **Property Income loss**. Property Income losses are usually carried forward against future rental profits. However, Property Income losses **that arise by way of excess capital allowances can be offset against other income.** This could be useful for high worth individuals looking for a tax efficient investment.

The flat must either be **unused or used only for storage throughout the 12 months prior** to the work commencing. Consequently if a taxpayer buys a shop with an empty space above it, he must make sure that that space has been empty for 12 months before he starts the renovation work. CAA 2001, s. 393B(2)

To be a "qualifying building": CAA 2001, s. 393C

a) the **ground floor** must have **business rating**;

b) the **original use of the upper floors** must have been **residential;**

c) the building must **not have more than 4 storeys** above the ground floor;

d) the building must have been **built before 1 January 1980**.

To be a "qualifying flat": CAA 2001, s. 393D

a) the flat must be held for **short term lets** (not more than 5 years);

b) it must be **self-contained**, i.e. there must be separate access to that particular flat (the tenant must not come through the shop front to get to the flat);

c) it must have **no more than 4 rooms**, excluding the bathroom, cloakroom or kitchen;

d) it must **not be of high value.** There is a table of rentals at S.393E which determine high value;

e) the person to whom the flat is let must **not be a connected person**. This is regardless of whether the connected person pays a market rent - if owner and tenant are connected, there is no 100% first year allowance.

12.3 Business Premises Renovation Allowances

CAA 2001, s. 360A - s. 360Z

The Business Premises Renovation Allowance (BPRA) is available to any individual or company, who incurs capital expenditure on **bringing qualifying business premises back into business use**.

The BPRA gives **100% initial allowances** for capital expenditure on the **renovation or conversion of business properties** that have been vacant for a year or longer in **designated disadvantaged areas** of the UK. The rules apply for qualifying expenditure incurred on and after 11 April 2007. CAA 2001, s. 360G

To qualify for the BPRA, the building: CAA 2001, s. 360C

1) Must be in a designated **disadvantaged area**;
2) Must have been **empty for at least a year** before the renovation works began;
3) Must have **previously been used in a trade** or been used as an office;
4) Must not have been used as a dwelling;
5) Must **remain as business premises after completion** of the renovation.

There is a long list of designated disadvantaged areas on the HMRC website.
Relief is given by **deducting 100% of the renovation costs against trading profits**. No relief is obtained for costs of acquiring the land on which the building is situated.

If a landlord undertakes the work (i.e. he buys the disused building, converts it then lets it out to a trader), the **capital allowances are deducted from rental income**.

The allowances are **clawed back if the building ceases to be used for a qualifying purpose within 7 years** after it was renovated and first made available for use. CAA 2001, s. 360M

12.4 The "Annual Investment Allowance" (AIA)

CAA 2001, s. 38A

From 6 April 2008 (1 April 2008 for companies), an "annual investment allowance" (AIA) was introduced for all businesses. The AIA is intended to "encourage greater levels of investment by reducing the costs of capital".

The original AIA gave a **100% first year allowance for £50,000 of investment** in plant & machinery (excluding cars) in a 12 month accounting period.

With effect from **6 April 2010** (1 April 2010 for companies) the **AIA has been doubled to £100,000.** CAA 2001, s. 51A(5)

If the accounting period of the business is **more or less than 12 months long**, the **AIA is proportionately reduced or increased**. Thus for a business drawing up a 9-month set of accounts to 31 March 2011, the AIA will be £100,000 x 9/12 = £75,000. CAA 2001, s. 51A(6)

Expenditure in excess of the AIA in the year will be dealt with under the standard rules for capital allowances, qualifying for capital allowances at 20% in the general pool, or 10% in the "special rate pool" (see later). The excess expenditure may also qualify for the temporary 40% FYA (see later).

Any unused AIA will be lost – there is no provision for the unutilised portion of the allowance to be carried forward.

The **business can decide which expenditure to allocate the AIA against**, it does **not** have to be allocated to the first plant and machinery acquired in the accounting period.

The AIA rules are in addition to the 100% FYAs for environmentally beneficial technologies (energy or water saving plant), Flat Conversion, Business Premises Renovation etc. These are unaffected by the AIA.

Illustration 1

Craig is a self-employed car mechanic. He draws accounts to 31 March each year. The balance brought forward on his general pool at 1 April was £12,000.

During the year Craig incurred the following capital expenditure:

		Cost
		£
1 September	Pressure washer	10,000
1 December	Hydraulic car lift	60,000

We will calculate Craig's capital allowances, first of all assuming that he has a year end of 31 March 2010 and therefore his maximum AIA is £50,000 for the year.

Y/e 31 March 2010	AIA @ 100%	General Pool	Total CAs
	£	£	£
Tax wdv b/fwd		12,000	
Additions:			
Pressure washer	10,000		
Hydraulic car lift	40,000	20,000	
	50,000	32,000	
AIA @ 100%	(50,000)		50,000
WDA @ 20%		(6,400)	6,400
C/fwd at 31.3.10		25,600	
CA claim for year			£56,400

Tutorial Note:
The £20,000 cost of the hydraulic car lift which has been allocated to the general pool could alternatively have been given a 40% FYA. This is covered later in the chapter.

Let's now recalculate Craig's capital allowances, this time assuming that he has a year end of 31 March 2011. His maximum AIA will now be £100,000 for the year.

Y/e 31 March 2011	AIA @ 100%	General Pool	Total CAs
	£	£	£
Tax wdv b/fwd		12,000	
Additions:			
Pressure washer	10,000		
Hydraulic car lift	60,000		
	70,000	12,000	
AIA @ 100%	(70,000)		70,000
WDA @ 20%		(2,400)	2,400
C/fwd at 31.3.11		9,600	
CA claim for year			£72,400

12.5 Time apportioning the AIA limits

The new **£100,000 AIA limit** applies to expenditure incurred in a 12 month accounting period **from 6 April 2010 (1 April 2010 for companies)**. Prior to 6 April 2010 the AIA limit was £50,000.

If a business has an accounting period which **straddles 6 April 2010** the maximum AIA is calculated by **time apportioning the "old" and "new" limits** using the number of months in the accounting period before and after 6 April 2010. (In practice, the AIA limit is calculated to the nearest day.)

There is a further restriction. Only a maximum of £50,000 of expenditure incurred in the accounting period **before 6 April 2010** can be covered by the AIA.

Illustration 2

Anders is self-employed. During the year ended 31 December 2010 he incurred £150,000 of capital expenditure on plant and machinery as follows:

		Cost
		£
1 January 2010	New van	15,000
1 March 2010	Production equipment	40,000
1 November 2010	Machinery	95,000

The tax written down value brought forward on the general pool at 1 January 2010 was £28,000.

We need to calculate Anders' capital allowances for the year ended 31 December 2010.

As the accounting period straddles 6 April 2010 we first need to calculate the maximum AIA available (for exam purposes we will do this to the nearest month):

		£
1 January 2010 – 5 April 2010	3/12 x £50,000	12,500
6 April 2010 – 31 December 2010	9/12 x £100,000	75,000
Maximum AIA available		£87,500

Next we need to consider the timing of the capital expenditure:

- £55,000 of plant and machinery has been acquired before 6 April 2010, and
- £95,000 of plant and machinery has been acquired on/after 6 April 2010.

Of the £87,500 maximum AIA available, no more than £50,000 can be awarded against expenditure incurred before 6 April 2010.

Y/e 31 December 2010	AIA @ 100%	General Pool	Total CAs
	£	£	£
Tax wdv b/fwd		28,000	
Additions pre 6 April 2010:			
New van	15,000		
Production equipment	35,000	5,000	
	50,000		
Additions from 6 April 2010:			
Machinery	37,500	57,500	
	87,500	90,500	
AIA @ 100%	(87,500)		87,500
WDA @ 20%		(18,100)	18,100
C/fwd at 31.12.10		72,400	
CA claim for year			£105,600

12.6 AIA restrictions

The AIA is available to all businesses (including ordinary property businesses and large companies) although **only one AIA** is available to each business each year.

Sole trader businesses and partnerships will each receive an AIA. Therefore where an individual is involved in more than one business (for example, he may be a partner in a firm and run a sole trader business in his own right at the same time) both businesses will receive an AIA.

However where an individual is a sole trader with more than one trade, he is **only entitled to one AIA** between the trades. He may then allocate the AIA across the trades as he sees fit. CAA 2001, s. 51H

A "group" of companies is treated as one business for the AIA. This means that the group will receive only one AIA between them, as opposed to one for each group company. A "group" in this context is a parent company and its 51% subsidiaries. The group can allocate the AIA between them as they wish. CAA 2001, s. 51C

Similarly, **companies under "common control" are also treated as one business** for the AIA. Again the companies can choose how they allocate the AIA. CAA 2001, s. 51E

"Common control" means that:

a) the companies are controlled by the **same person**; and
b) the companies are **"related" to one another**.

Companies are "related" to one another if either: CAA 2001, s. 51G

a) the businesses are carried on from the same premises; or
b) more that 50% of the turnover of the companies are derived from the same economic activities.

This essentially means that if an individual owns two companies, A Ltd and B Ltd, both A Ltd and B Ltd will each receive their own AIA unless:

a. A Ltd and B Ltd trade from the same premises, or
b. A Ltd and B Ltd carry on very similar trading activities,

in which case one AIA must be shared between them.

This prevents individuals exploiting the rules to obtain more capital allowances by "spreading" the same business between different companies.

12.7 Future change to the AIA limit

The second Budget of 2010 announced that, with effect **from 6 April 2012** (1 April 2012 for companies) the **AIA will be reduced to £25,000**.

12.8 Special rate pool

The Finance Act 2008 introduced a "**special rate pool"** for qualifying expenditure incurred from 6 April 2008 (1 April 2008 for companies).

Expenditure to be allocated to the "special rate pool" consists of expenditure incurred on:

1) "**integral features**",
2) "**long life assets**",
3) **thermal insulation** of buildings used in a business, and
4) **cars with CO_2 emissions of more than 160 g/km** (see Chapter 13).

Assets that **fall into the special rate pool will be eligible for the AIA**.

Any **excess expenditure will be placed in a separate special rate pool** where it will be eligible for a **10% writing down allowance**, rather than the 20% allowance that is available to assets going into the general pool.

Therefore when allocating the 100% AIA:

1) first allocate the AIA to assets in the "special rate" pool; then

2) allocate any remaining AIA to "general" plant and machinery.

12.9 Integral features

CAA 2001, s. 33A

As we saw in an earlier chapter, for capital allowances purposes the boundary between what is "plant and machinery" and what is a "commercial building" is not absolutely clear.

Instead case law draws a distinction between equipment "**with which"** a business is carried on and the premises or setting "**in which"** the business is carried on. These case law tests were (to a certain extent) consolidated and given statutory authority in Capital Allowances Act 2001.

This has essentially meant that certain assets which are "integral" to a building (such as air conditioning systems and lifts etc) previously qualified for writing down allowances at the "old" rate (prior to April 2008) of 25% whereas other assets (such as electrical and water systems) were deemed to be part of the building and did not qualify for capital allowances.

From 6 April 2008, "integral features" are **separately identified in the special rate pool** on which **writing down allowances are given at 10%.** According to the government, assets such as lifts and air-conditioning systems have a longer economic life than other more "productive equipment" used in the business, so the special rate pool offers "a more appropriate rate of write-off for these assets".

FA 2008 introduced a list of features which are "integral" to a building and which will therefore only qualify for capital allowances at 10%. These are: CAA 2001, s. 33A(S)

- Lifts, escalators & moving walkways;
- Space & water heating systems;
- Air-conditioning and air cooling systems;
- Hot & cold water systems (excluding toilet & kitchen facilities);
- Electric lighting and power systems;
- External solar shading.

12.10 Long life assets

Long life assets are assets with a predicted **useful life of at least 25 years.** Typically this will apply to very specific trades such as large manufacturing trades, power stations, aircraft and shipbuilding etc, where some assets can be expected to be used in the business for a very long time. CAA 2001, s. 91

Like integral features, long life assets are taken to the **special rate pool** and are given writing down allowances at 10% on a reducing balance basis. CAA 2001, s. 101 CAA 2001, s. 102

However, items are not treated as a long-life asset **where total expenditure in the accounting period on such assets does not exceed £100,000**. CAA 2001, s. 99

If a sole trader or company buys assets with an expected useful life of over 25 years, but the **expenditure on such assets in the period is less than £100,000,** the asset is treated as a standard piece of plant and machinery and **normal writing down allowances** are available at a rate of 20%.

This £100,000 limit is **adjusted for short or long accounting periods.** For example, if a trader draws accounts for a six-month accounting period, the long life asset limit would be £50,000. For a group of companies, the £100,000 limit is adjusted for the **number of associated companies**. CAA 2001, s. 99(2)

If an asset is acquired second-hand and had originally received a 20% writing down allowance, it will **continue to obtain relief at 20%**.

If an asset has been treated as a long life asset by a seller, the buyer (regardless of how much he buys the asset for) will also have to treat the asset as a long life asset - **once a long life asset, always a long life asset**.

Illustration 3

Jamie runs a business making aquariums and garden fish-ponds from a small factory in Colchester. He started trading on 1 May 2009 preparing his first set of accounts for fifteen months to 31 July 2010.

In his first period of trading to 31 July 2010, Jamie incurred the following capital expenditure:

		£
1 May 2009	Factory	300,000
1 May 2009	Air-conditioning units for factory	25,000
1 October 2009	Energy efficient motors (new)	30,000
1 December 2009	New roof on staff canteen	25,000
1 May 2010	3 delivery vans	66,000

We will calculate Jamie's capital allowances for the period ended 31 July 2010.

- Expenditure on the factory does not qualify.

- Expenditure on air conditioning qualifies as an **integral feature** and so falls into the special rate pool with a 10% WDA. However as we can choose what we allocate the AIA to, we will first allocate it to integral features.

- Expenditure on **energy saving** plant and machinery qualifies for **FYAs at 100%** (unaffected by the AIA).

- The new roof is not an integral feature – it is part of a building and does not qualify.

- The accounting period straddles 6 April 2010. The maximum AIA is therefore:

		£
1 May 2009 – 5 April 2010	11/12 x £50,000	45,833
6 April 2010 – 31 July 2010	4/12 x £100,000	33,333
Maximum AIA available		£79,166

  Of which no more than £50,000 can be allocated to expenditure incurred before 6 April 2010.

- £25,000 of the AIA is allocated to the air-conditioning units (which is expenditure incurred before 6 April 2010).

- The remaining £54,166 of AIA is allocated to the delivery vans (which is expenditure incurred after 6 April 2010). The balance of the van cost goes into the general pool.

The capital allowances computation will therefore be:

15 m/e 31 July 2010	FYAs @ 100%	AIA @ 100%	General Pool	"Special rate" pool	Total CAs
	£	£	£	£	£
Additions:					
Air-conditioning		25,000			
Motors	30,000				
Delivery vans	_____	54,166	11,834		
	30,000	79,166	11,834		
FYA @ 100%	(30,000)				30,000
AIA @ 100%		(79,166)			79,166
WDA @ 20% x **15/12**			(2,959)		2,959
WDV c/fwd @ 31.7.10			8,875		_____
CA claim for year					112,125

None of the expenditure is allocated to the "special rate pool" as the £25,000 expenditure on integral features in the period is less than the AIA limit.

12.11 Future change to special rate pool

In the second Budget of 2010 it was announced that the rate of writing down allowance (WDA) for plant and machinery in the special rate pool will be reduced from 10% to 8% for accounting periods ending on or after 6 April 2012 (1 April 2012 for companies).

A hybrid rate of WDA will apply to a business whose accounting period spans 6 April 2012.

12.12 Temporary 40% first year allowance

The government decided to introduce a **temporary FYA of 40%** for expenditure incurred on plant and machinery that would normally go into the **general pool**.

The following assets are **not** eligible for the 40% FYA:

- Cars
- 'Special rate' pool expenditure
- Assets for leasing

The 40% FYA was available for expenditure incurred in the **12 months from 6 April 2009 to 5 April 2010** for any partnership or individual carrying on a 'qualifying activity', irrespective of size (1 April 2009 to 31 March 2010 for companies).

The 40% FYA is **not time-apportioned** in short or long accounting periods.

Where expenditure is eligible for both the AIA and the 40% FYA, careful consideration should be given as to which expenditure is allocated the AIA and which the FYA.

In order to maximise allowances, the trader should allocate the AIA to any 'special rate pool' assets first, leaving the 40% FYA for any eligible general pool expenditure that is not covered by the remaining AIA.

Illustration 4

Darling, a sole trader, draws accounts to 30 September each year. The tax written down value brought forward on the general pool at 1 October 2009 was £12,000. During the year ended 30 September 2010, Darling incurred the following capital expenditure:

		£
1 December 2009	Tools & machinery	80,000
1 March 2010	New air conditioning system	15,000
1 August 2010	Production equipment	45,000
		140,000

As Darling's accounting period straddles 6 April 2010, the maximum AIA available must be calculated:

		£
1 October 2009 – 5 April 2010	6/12 x £50,000	25,000
1 April 2010 – 30 September 2010	6/12 x £100,000	50,000
Maximum AIA available		75,000

Since total expenditure on plant is £140,000, the AIA will not cover the full amount. Darling must decide which of the expenditure to allocate to the AIA.

The new air conditioning system is an integral feature and so does not qualify for the FYA of 40%. The first £15,000 of the AIA should be allocated to the air conditioning expenditure rather than claiming only the 10% WDA in the special rate pool.

The production equipment, despite being general pool expenditure, is not eligible for the new 40% FYA as it was acquired after 5 April 2010 and so the AIA should be allocated to this equipment, leaving £15,000 AIA available.

Finally, the tools and machinery are eligible for the temporary 40% FYA as they are general pool items bought between 6 April 2009 and 5 April 2010. £15,000 of the cost of the tools and machinery is taken to the AIA column to use up the balance of the AIA and the remaining £65,000 goes into the 40% FYA pool.

So in summary the allowances are calculated as follows:

Y/e 30 September 2010	AIA @ 100% £	FYAs @ 40% £	General Pool £	Total CAs £
Tax wdv b/fwd			12,000	
Additions:				
Air conditioning	15,000			
Production equipment	45,000			
Tools & machinery	15,000	65,000		
	75,000	65,000	12,000	
AIA @ 100%	(75,000)			75,000
FYA @ 40%		(26,000)		26,000
WDA @ 20%			(2,400)	2,400
			9,600	
Transfer to pool	NIL	(39,000)	39,000	
C/fwd at 30.9.10			48,600	
CA claim for year				£103,400

12.13 Small plant & machinery pools

CAA 2001, s. 56A

From 6 April 2008, businesses can claim a writing down allowance of **up to £1,000** when the tax written down value brought forward in either the general pool or the special rate pool is **£1,000 or less**.

This means that businesses who have **very small brought forward balances** in the general pool or special rate pool will no longer have to calculate WDAs at 20% or 10% on such pools – instead where the pool is £1,000 or less, after dealing with any additions or disposals in the period, the **full amount can be written down**. This is intended to lessen the administration burden for small businesses.

	General pool £
Tax WDV b/fwd	X
Additions (at cost)	X
Disposals (sales proceeds – restricted to cost)	(X)
	X
	⬇
	If this figures is ≤ £1,000 WDA = balance on pool

Businesses do not have to take the maximum allowance – they may claim less than the whole residue if they prefer.

This rule applies for **accounting periods beginning on or after 6 April 2008** (1 April 2008 for companies).

The small pool limit of £1,000 is scaled up or down for short or long accounting periods. It does not apply to "single asset" pools.

Illustration 5

Nancy is a full-time mother, but for 2 evenings a week she runs a fitness class at the local community centre. Her only capital assets are some fitness equipment and a computer bought a couple of years ago for £2,800. She draws accounts annually to 30 June.

The written down value of the general pool at 1 July 2009 is £1,200.

Her capital allowances computations are as follows:

	General Pool	CA claim
Year ended 30 June 2010	£	£
Tax written down value b/fwd at 1.7.09	1,200	
WDA @ 20%	(240)	240
Tax written down value c/fwd at 30.6.10	960	
Year ended 30 June 2011		
Tax written down value b/fwd at 1.7.10	960	
WDA	(960)	960
Tax written down value c/fwd at 30.6.11	NIL	

12.14 Additional VAT liabilities

The VAT payable on an asset is usually determined by the first use of that asset. For example, if a business buys a new mainframe computer costing (say) £80,000 on 15 December 2010, VAT at 17½% will be added to the purchase price so the trader will actually pay £80,000 plus £14,000 VAT = £94,000.

If the computer is then used to make "taxable supplies" in the business, the **trader will recover the VAT from HMRC**. In this case, **capital allowances will be claimed on the "net" cost** of the computer being £80,000. The £14,000 of VAT is not a "cost" to the business as it has been reclaimed.

However if the business subsequently uses the computer for a different purpose (ie, not for the purpose of making taxable supplies), HMRC will insist that **some of the VAT originally recovered on the computer should now be repaid**. The business will therefore need to pay some additional VAT to HMRC.

This additional VAT is now effectively a "cost" of acquiring the computer and will be **eligible for capital allowances in the accounting period in which the VAT liability is incurred**. CAA 2001, s. 235

This additional cost may be eligible for first year allowances or the annual investment allowance if appropriate. CAA 2001, s. 236

If the 40% first year allowance was claimed on the original net cost of the asset, then the 40% first year allowance will also be available for the additional VAT liability – even if this additional VAT liability is not paid until after 5 April 2010.

Illustration 6

Freshco Ltd is a large company which operates a chain of supermarkets. It draws accounts annually to 31 March.

In the year ended 31 March 2010, Freshco Ltd bought plant and machinery for £300,000 and a computer for £80,000 in February. VAT was added to the purchase price. All assets were used to make taxable supplies, so all the VAT was subsequently recovered from HMRC. The general pool at 1 April 2009 was £600,000.

The capital allowances for the year ended 31 March 2010 are as follows:

Y/e 31 March 2010	AIA @ 100%	FYA 40%	General Pool	Total CAs
	£	£	£	£
Tax wdv b/fwd			600,000	
Additions:				
Plant & machinery	50,000	250,000		
Computer		80,000		
	50,000	330,000	600,000	
AIA @ 100%	(50,000)			50,000
FYA @ 40%		(132,000)		132,000
WDA @ 20%			(120,000)	120,000
Transfer to pool		(198,000)	198,000	
C/fwd @ 31.3.10			678,000	
CA claim for year				£302,000

In the year ended 31 March 2011, Freshco Ltd starting using the computer part of the time for making non-taxable supplies. As a result, Freshco repaid £1,000 of VAT to HMRC. Its plant and machinery additions in the year were £105,000.

The capital allowances for the year ended 31 March 2011 are as follows:

Y/e 31 March 2011	AIA @ 100%	FYA 40%	General Pool	Total CAs
	£	£	£	£
Tax wdv b/fwd			678,000	
Additions:				
Plant & machinery	100,000		5,000	
Additional VAT		1,000		
	100,000	1,000	683,000	
AIA @ 100%	(100,000)			100,000
FYA @ 40%		(400)		400
WDA @ 20%			(136,600)	136,600
Transfer to pool		(600)	600	
C/fwd @ 31.3.11			547,000	
CA claim for year				£237,000

The VAT liability of £1,000 receives the 40% FYA because the original cost of the computer received the 40% FYA.

12.15 Additional VAT rebates

The same thing can happen in reverse. For example, a business could buy a computer for the purposes of making non-taxable supplies. No VAT would then be recovered from HMRC, so the "cost" of the computer for capital allowances purposes would include the irrecoverable VAT.

However if the business subsequently uses the computer to make taxable supplies, **HMRC will repay some of the VAT originally incurred when the computer was bought** (i.e. there will be a VAT rebate).

This VAT rebate now **reduces the cost of acquiring the computer** (so effectively too many capital allowances have now been claimed). To correct this, the **VAT rebate is treated as a disposal of plant for capital allowance purposes**. Therefore the **amount of the rebate is deducted from the pool** and writing down allowances are claimed on the balance. CAA 2001, s. 238

Example 1

Fred started trading on 1 July 2009 drawing accounts to 30 June 2010.

Determine the rate of capital allowances to be given in respect of the following capital expenditure:

Date:	Expense:	Nil	10%	40%	100%
1.7.09	New workshop for use in trade (£200,000)				
1.7.09	Electrical wiring of workshop (£15,000)				
1.10.09	New production line (£30,000)				
1.11.09	Energy efficient boiler (£10,000)				
1.12.09	New roof on store-room (£20,000)				
1.3.10	Machinery (£20,000)				

Example 2

Ted runs a small business. In the year to 30 September 2010 the following information is given:

	£
WDV b/f:	
General pool	60,000
Additions:	
New machinery (1.1.10)	50,000
New computers & printers (1.7.10)	30,000
Second-hand delivery van (1.8.10)	6,000
Disposals:	
Office furniture (1.12.09)	(1,000)

Calculate the capital allowances due for the year.

Answer 1

Date:	Expense:	Nil	10%	40%	100%
1.7.09	New workshop for use in trade (£200,000)	✓			
1.7.09	Electrical wiring of workshop (£15,000)				✓
1.10.09	New production line (£30,000)				✓
1.11.09	Energy efficient boiler (£10,000)				✓
1.12.09	New roof on store-room (£20,000)	✓			
1.3.10	Machinery (£20,000)			✓	✓

Notes:

a) Maximum AIA available:

		£
1 July 2009 – 5 April 2010	9/12 x £50,000	37,500
6 April 2010 – 30 June 2010	3/12 x £100,000	25,000
		62,500

b) The workshop is a building (it is not plant).
c) The electrical wiring will be an integral feature. The £15,000 will be covered by the AIA.
d) £35,000 of the AIA is available to cover the production line cost of £30,000.
e) The energy efficient boiler receives 100% FYAs (unaffected by the AIA).
f) The new roof on the store-room is part of the building (it is not an integral feature).
g) So far £45,000 of the £62,500 AIA has been used (£15,000 on the electrical wiring and £30,000 on the production line). Therefore, £17,500 of the machinery will be covered by the AIA. The remaining £2,500 of the new machinery will be eligible for the temporary 40% FYA as it is bought after 6 April 2009 but before 5 April 2010.

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Answer 2

Y/e 30 September 2010	*AIA @ 100%* £	*FYA @ 40%* £	*General Pool* £	*Total CAs* £
WDV b/f:			60,000	
Additions:				
Machinery	39,000	11,000		
Computers	30,000			
Delivery van	6,000			
Disposal:				
Furniture sold			(1,000)	
	75,000	11,000	59,000	
100% AIA	(75,000)			75,000
40% FYA		(4,400)		4,400
20% WDA			(11,800)	11,800
Transfer to pool		(6,600)	6,600	
WDV c/f	-	-	53,800	
Total CA claim				79,400

Maximum AIA available:

		£
1 October 2009 – 5 April 2010	6/12 x £50,000	25,000
6 April 2010 – 30 September 2010	6/12 x £100,000	50,000
		75,000